

## **2002-04 FUNDING METHODOLOGY POINTS OF CONSENSUS**

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***ACTION***  
**Agenda Item G-1**  
**February 5, 2001**

### **Recommendation**

- The staff recommends that the council endorse the “Points of Consensus Among University Presidents, KCTCS President, and the Council President Concerning the 2002-04 Funding Methodology” as the basis of the council's operating and capital guidelines for the 2002-04 budget recommendations.
- The staff further recommends that the council direct the staff to propose more specific details to guide the development of the council's 2002-04 operating and capital budget recommendations.

### **Background**

The following document has evolved over the past three months through meetings of the presidents, the chief budget officers, the chief academic officers, and the Operating Budget Review Subcommittee of the Strategic Committee on Postsecondary Education. The agreement was presented to the Finance Committee and the Operating Budget Review Subcommittee January 16. Neither group proposed any changes. As chair of the council, SCOPE, and the Operating Budget Review Subcommittee, Charles Whitehead will present the final version to SCOPE February 7.

# **Points of Consensus among University Presidents, KCTCS President, and the Council President Concerning the 2002-04 Funding Methodology February 5, 2001**

## **I. Base Funding**

**Provision 1:** In recognition of the Commonwealth's commitment to an excellent system of postsecondary education and postsecondary education's linkage to economic development growth, recommendations for funding to be appropriated to the base budgets of the universities and the Kentucky Community and Technical College System will provide the following:

- a) An inflationary increase as provided to other agencies of state government.
- b) Maintenance and operation funds to support new educational and general buildings approved by the General Assembly.
- c) Changes in debt service requirements for institutional bond issues supported from state appropriations and to be paid by the institution.
- d) The benchmark method is one of several acceptable approaches to establish institutional base budgets and should be retained to determine equity adjustments to the base General Fund appropriations to the institutions. However, the current model will be supplemented and strengthened. Institutions will have the opportunity to negotiate the replacement of up to five institutions from their current benchmark lists. In addition, the benchmark method should be augmented to address the differential costs related to new undergraduate and graduate enrollments through a new Enrollment Growth and Retention Trust Fund (Section II).

### ***Clarifying Statements***

- Based on actions of the council, the governor, and the General Assembly to reaffirm the state appropriation bases of institutions, no redistribution among institutions of existing institutional General Fund base appropriations should occur. Institutional General Fund base budgets should not be reallocated through the state budgeting process.
- General Fund appropriations to institutions should continue to be lump sum with necessary accountability requirements.
- Institutions should continue to have the delegated authority to set tuition rates.
- The annual General Fund base increase request should be, at a minimum, the percentage provided to state agencies in the Legislative Research Commission's promulgated biennial *Budget Request Manual*.

- The benchmark method will involve a review of benchmark institutions using objective data consistent with the existing selection criteria. Universities with medical schools will not be considered as benchmark institutions for the Kentucky comprehensive universities.
- Adjustments to institutional base budgets should include across-the-board inflationary increases for all institutions as well as adjustments resulting from the benchmark process.
- The cost differential related to new undergraduate and graduate enrollments should be addressed through a new Enrollment Growth and Retention Trust Fund (Section II).
- If feasible, a study should be undertaken to identify General Fund debt service at the benchmark institutions. The identified General Fund debt service amounts should be factored out of data for both the Kentucky institutions as well as the benchmark institutions.

**Provision 2.** Actual tuition should not be an offset against General Fund appropriations.

***Clarifying Statements***

- Kentucky's funding approach needs to reflect the shared funding responsibility between the state and the student (tuition).
- A uniform standard for determining the tuition deduction from the calculated public funds amount should be developed. The standard deduction should be lower for KCTCS than for the universities.

**Provision 3.** The council and the institutions should identify and agree upon mandated public service and research programs having no student enrollments or instructional function. These will be factored out of benchmark funding evaluations.

***Clarifying Statements***

- Institutions should identify state-funded mandated public service and research programs funded through General Fund appropriations having no student enrollments or instructional function. These programs could be identified through, for example, a search of the Kentucky Revised Statutes. Institutions should provide appropriate documentation including the date the program was created and the levels of General Fund support over time.
- In order for the removal of mandated programs to be useful in the benchmark process, public service and research General Fund appropriations should be treated as consistently as possible across all Kentucky institutions and their respective benchmark institutions. If feasible, a study should be undertaken to identify similar mandated programs at the benchmark institutions. Such General Fund appropriations should be factored out of data for both the Kentucky institutions as well as the benchmark institutions.
- The institutions and the council should strive to have mandated programs separately identified in future budget bills to clarify each institution's base General Fund operating appropriation.

## II. Trust Funds

Trust funds should be maintained. An Enrollment Growth and Retention Trust Fund should be recommended and should recognize the differentiated costs of undergraduate and graduate instruction. Funding amounts should be based on the council's recommended benchmark funding objectives and upon enrollment and retention goals negotiated with each institution.

### *Clarifying Statements*

- The trust funds approach is important for assuring the achievement of *Strategic Agenda* goals. Distribution criteria for each trust fund, including the criteria for determining institutional allocations and matches (if any), should be part of the council's 2002-04 budget request.
- Enrollment growth and retention funds should be requested through an Enrollment Growth and Retention Trust Fund with performance goals negotiated with the institutions as the criteria to access funds.
- The Enrollment Growth and Retention Trust Fund should recognize the differentiated costs of increased undergraduate and graduate enrollments. Funding amounts for the Enrollment Growth and Retention Trust Fund should be based on each institution's benchmark funding objective per FTE.

## III. Special Funding

Funding of special and meritorious initiatives may be designated by the council for flow-through funding; however, guidelines will be promulgated well in advance.

### *Clarifying Statements*

- Criteria for the council's evaluation of special initiative requests will be established early in the process.
- The Commonwealth, through its partnership agreement with the U.S. Office for Civil Rights, is committed to enhancing Kentucky State University. KSU and the council should fulfill this commitment through further discussions.
- Institutions should be provided an opportunity to request increases in General Fund appropriations for mandated programs that have been factored out of the benchmark process.

#### **IV. Endowment Match Program**

The Endowment Match Program should be retained.

##### *Clarifying Statements*

- Matching requirements play an integral part of the Endowment Match Program by providing incentives for private fund-raising.
- Matching funds received from private donors for the Endowment Match Program should be endowed.
- Special consideration may be given to institutions with demonstrated difficulty in meeting matching requirements such as additional time to match their allocated state funds.

#### **V. Space Planning Guidelines**

The space planning guidelines will be further reviewed as to coding of research space, quality of space, and fitness for purpose.

##### *Clarifying Statements*

- The council should submit a capital projects recommendation for the 2002-04 biennium to the governor and the General Assembly based on requests submitted by institutions under guidelines developed by the council early in the budget process. The Space Planning Guidelines will be revised to address coding of research space, quality of space, and fitness for purpose.
- Capital funding guidelines should allow for requests for capital renewal of existing facilities, equipment replacement, and equipment acquisitions consistent with the goals of House Bill 1 and the Strategic Agenda. The council should advance requests for new facilities when necessary to accomplish a specific strategic goal or support the mission of the institution.
- The Capital Renewal and Maintenance Program should continue to be based on projects recommended by the council.
- The council should continue to recommend a sufficient agency bond pool amount and recommend that institutions have the autonomy to bond their own projects without affecting the state bonding capacity.